

**Testimony of Paul W. Inman  
Docket Number 2013-378-E**

1   **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   **A.**Paul W. Inman, Lockhart Power Company, Post Office Box 10, Lockhart, South  
3       Carolina 29364.

4   **Q.   PLEASE STATE YOUR PRESENT POSITION.**

5   **A.**I am Business Controller of Lockhart Power Company.

6   **Q.   WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL  
7       EXPERIENCE?**

8   **A.**I hold a Bachelor of Arts degree in Business Administration from Limestone  
9       College. I also hold a Master of Business Administration degree from the  
10      University of South Carolina. I was employed by Lockhart Power Company in  
11      1972 as a Management Trainee. Later that same year I was promoted to  
12      Business Controller of Lockhart Power Company.

13  **Q.   WILL YOU BRIEFLY SUMMARIZE YOUR DUTIES AND RESPONSIBILITIES  
14      WITH LOCKHART POWER COMPANY?**

15  **A.**I have complete responsibility for all accounting and financial reporting aspects of  
16      Lockhart Power Company.

17  **Q.   WOULD YOU PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY?**

18  **A.**I will discuss certain accounting adjustments and accounting proforma  
19      adjustments made to the test year in this filing, and will discuss the deferred  
20      revenue aspect of our Power Adjustment Clause.

**Testimony of Paul W. Inman  
Docket Number 2013-378-E**

1   **Q.    WOULD YOU PLEASE DESCRIBE CERTAIN ACCOUNTING ADJUSTMENTS**  
2       **AND ACCOUNTING PROFORMA ADJUSTMENTS THAT WERE MADE TO**  
3       **THE TEST YEAR IN THIS FILING?**

4   **A.**   Lockhart Power Company ("Lockhart Power Company" or "Company") made  
5       adjustments to beginning (12-31-12) book balances for certain revenue and  
6       expense accounts to remove the effect of non-jurisdictional contracts before  
7       beginning the process of proforma adjustments. Sales of hydro generation were  
8       made off-system and recorded in the appropriate FERC revenue accounts.  
9       Associated expenses, plant costs, CWIP and accumulated amortization amounts  
10      were also recorded in the appropriate FERC accounts. These amounts, being  
11      non-jurisdictional, were removed from the consolidated revenue, expense, plant,  
12      CWIP and accumulated amortization account values as reported in the FERC  
13      Form 1. Also, certain customer-specific Demand Side Management credits that  
14      were passed through from Duke Energy to those customers were removed from  
15      both Industrial Revenue and Purchased Power Expense. The end result of all  
16      these accounting adjustments yielded adjusted balances against which to apply  
17      proforma adjustments. Proforma adjustments were then made to certain test  
18      year revenues, expenses and rate base balances to normalize these values by  
19      either adjusting for known changes, or to adjust abnormal revenues or expenses  
20      to an appropriate normal annual level. The individual proforma adjustments are  
21      described below.

22      **Electric Plant Adjustments**

## **Testimony of Paul W. Inman**

### **Docket Number 2013-378-E**

1 In late 2012 and early 2013, the Company completed construction of two new  
2 small hydroelectric facilities. These were the Lockhart Minimum Flow and Upper  
3 Pacolet hydro plants, respectively. The costs of these plants were closed from  
4 CWIP to Electric Plant in Service during September, 2013 after all related  
5 charges had been paid. In order to use a current level of electric fixed assets in  
6 the development of this filing, the Company included in its rate base Electric  
7 Plant in Service and Construction Work in Progress balances as of September  
8 30, 2013. In addition, adjustments were made to Electric Plant to account for  
9 certain known and measurable capital-related classification changes that would  
10 occur after September 30, 2013. Specifically, the Company had made  
11 expenditures of \$4,139,806 to the Columbia Hydroelectric facility as of  
12 September 30, 2013 under its rehabilitation plan for that project. These costs  
13 were included in CWIP and work was complete as of that date. Therefore, a  
14 proforma adjustment was made to the test period to re-class these costs to plant  
15 in service, which actually did occur the next month, October, 2013. (SEE  
16 EXHIBIT A3-8 PROFORMA – UTILITY PLANT WORKSHEET)

#### **Depreciation & Amortization Expense Annualization**

17 The Company has made a proforma adjustment to annualize its depreciation &  
18 amortization (D&A) cost, because the test year actual D&A cost does not  
19 consider the effect of certain known and measurable changes that should be  
20 taken into account. First, provisions for depreciation on capital expenditures  
21 made during the test year occurred as the assets went into service throughout  
22

## **Testimony of Paul W. Inman**

### **Docket Number 2013-378-E**

1 the year. This resulted in only a partial year of depreciation cost in the test year  
2 on those additions, and should, therefore, be annualized. Secondly, plant in  
3 service and accumulated D&A as of September 30, 2013, are now included in  
4 rate base. Therefore, annual D&A cost attributable to those capital additions  
5 occurring between December 31, 2012 and September 30, 2013, as well as the  
6 D&A taken on the general asset base between these same dates, must also be  
7 included. Finally, the Columbia Hydro rehabilitation project, the cost of which  
8 was spent by September 30, 2013 but was transferred to plant in October, 2013,  
9 is being included in electric plant in service. Consequently, D&A costs have  
10 been herein normalized to reflect a whole year of D&A charges on the total cost  
11 of plant included in electric plant in service. D&A charges for the test year  
12 amounted to \$1,760,658. Considering the above adjustments to plant, D&A  
13 costs were recalculated, applying annual rates to the adjusted ending plant  
14 balances. This resulted in total D&A costs of \$2,262,827. Therefore, a proforma  
15 adjustment is herein made to increase test year D&A costs by \$502,169. A  
16 proforma adjustment of \$1,850,616 to increase test year accumulated D&A,  
17 thereby reducing rate base, is also made to incorporate all the factors listed  
18 above. (SEE EXHIBIT A3-9 PROFORMA DEPRECIATION & AMORTIZATION  
19 WORKSHEET)

#### **Property Tax Expense Annualization**

20  
21 Property taxes for the test year were understated on a prospective basis due to  
22 three categories of changes in capital expenditures for which no property taxes

**Testimony of Paul W. Inman**  
**Docket Number 2013-378-E**

1        were included. These were as follows: (1) capital expenditures made during the  
2        test year (2) capital expenditures made between December 31, 2012 and  
3        September 30, 2013, and (3) special capital expenditures that were re-classed  
4        from CWIP to electric plant in service during October, 2013. Actual property tax  
5        expense in the test year was based on plant in service as of December 31, 2011.  
6        Therefore, property taxes attributable to the above additional three categories of  
7        capital expenditures should be added to test year expense to normalize the cost.  
8        A calculation of property-related taxes using the revised investment level yields  
9        an adjusted total annual cost of \$1,028,207. Actual property-related tax  
10       expenses included in the test year amounted to \$890,661. Test year Property  
11       Tax Expense is therefore increased by a proforma adjustment of \$137,546. (SEE  
12       EXHIBIT A3-10 PROFORMA PROPERTY-RELATED TAX ADJUSTMENT  
13       WORKSHEET)

14       **Upper Pacolet Hydro Plant Operating Expense**

15       As referred to above under Electric Plant Adjustments, the Company completed  
16       construction of its Upper Pacolet hydroelectric facility in early 2013. The  
17       operation of this facility will incur certain ongoing operating and maintenance  
18       costs. Lockhart Power has experience operating its existing Lower Pacolet  
19       facility, which is of slightly less capacity than this new facility. It is expected that  
20       the operating cost of the new facility will be proportional to that of the existing  
21       facility, with any difference being related to size or capacity. The operating cost  
22       of the existing facility during the test year was \$77,140. The kW capacity ratio of

## **Testimony of Paul W. Inman**

### **Docket Number 2013-378-E**

1 the new facility vs the existing facility is 1,100/800. Therefore the annual  
2 projected cost of the new facility is \$106,068 ( $\$77,140 \times 1,100/800$ ). Test year  
3 expense is therefore adjusted by \$106,068 to include these additional operating  
4 costs. (SEE EXHIBIT A3-11 PROFORMA – UPPER PACOLET HYDRO PLANT  
5 OPERATING EXPENSE WORKSHEET)

#### **Minimum Flow Hydro Plant Operating Expense**

6  
7 As referred to above under Electric Plant Adjustments, the Company completed  
8 construction of its Minimum Flow hydroelectric facility in late 2012. The operation  
9 of this facility will incur certain ongoing operating and maintenance costs.  
10 Lockhart Power has experience operating its existing Lower Pacolet facility,  
11 which is of the same rated capacity as this new facility. It is expected that the  
12 operating cost of the new facility will be approximately equal to that of the  
13 existing facility. The operating cost of the existing facility during the test year was  
14 \$77,140. Therefore, test year expense is adjusted by \$77,140 to include these  
15 additional operating costs for the Minimum Flow facility. (SEE EXHIBIT A3-12  
16 PROFORMA – MINIMUM FLOW HYDRO PLANT OPERATING EXPENSE  
17 WORKSHEET)

#### **Purchased Power Expense Adjustment**

18  
19 A proforma adjustment has been made to reduce Purchased Power Expense to  
20 correct the effect of three events that caused the account to be overstated by a  
21 net amount of \$135,587: (1) The Company received a one-time demand charge  
22 refund during the 2012 Test Year that was related to an overcharge by Duke that

**Testimony of Paul W. Inman**  
**Docket Number 2013-378-E**

1       dated back to 2010. The effect of this refund was that historical test year  
2       Purchased Power Cost was net of the refund of \$68,484, an amount that must be  
3       removed. To remove the credit requires an adjustment to increase expense.

4       (2) The 2012 year true-up that Duke made during 2013, was a credit in the  
5       amount of \$320,524. As background, annual true-ups are included in the terms  
6       of the present power purchase agreement that Lockhart Power Company has  
7       with Duke Energy. These true-ups arise from the application of a formula rate by  
8       Duke. Under this rate structure, charges were billed by Duke throughout the test  
9       year based on beginning-of-year estimates of demand and energy rates and  
10      demand units. A true-up adjustment is made during the next year after all actual  
11      costs and billing units are known. Such was the handling of Lockhart's billing by  
12      Duke for Purchased Power costs during test year 2012 and the ensuing 2013  
13      year. The true-up was immediately flowed through to Lockhart's customers via its  
14      Purchased Power Adjustment Clause (Schedule O) in the next month after  
15      receiving the adjustment from Duke. Inasmuch as the net credit was for over-  
16      estimated charges made during the test year, the test year 2012 Purchased  
17      Power Expense should be reduced to reflect the true-up credit received in 2013.

18      (3) The Company began selling the output from its Lower Pacolet Hydro plant off-  
19      system effective September 1, 2012, flowing the resulting revenues to its  
20      customers via Schedule O. The Company replaces these sales with lower cost  
21      purchases from Duke, so an adjustment is necessary to normalize or increase  
22      the test year expense by \$116,453 to also include replacement power cost from

**Testimony of Paul W. Inman**  
**Docket Number 2013-378-E**

1 January through August, for prospective purposes. Therefore, a proforma  
2 adjustment is made for an amount that is equal to the net effect of these three  
3 transactions, and represents a net reduction of test year Purchased Power  
4 Expense in the amount of \$135,587. (SEE EXHIBIT A3-13 PROFORMA –  
5 PURCHASED POWER EXPENSE WORKSHEET)

6 **Wage Increase Annualization**

7 An average wage increase of 3.1% became effective on employee earnings  
8 occurring on or after December 2, 2012. An average wage increase of 3.5%  
9 became effective on all employee earnings occurring on or after December 1,  
10 2013. A calculation was made to determine the effect of including the 3.1%  
11 increase for the whole test year, which amounts to a gross additional cost of  
12 \$69,888 for the 48 weeks from January 1, 2012 to December 2, 2012. A different  
13 calculation was made for the second wage increase, which became effective  
14 December 2, 2013, in order to account for its annual impact as well. The annual  
15 effect of this second wage adjustment amounted to \$92,539. The two  
16 adjustments taken as a total, amounted to \$162,427. This total was further  
17 broken down into expense and rate base components and amounted to  
18 \$126,490 and \$35,937, respectively. An adjustment to increase expense was  
19 made in the amount of \$126,490. An adjustment to increase rate base in the  
20 amount of \$35,937 was made for the capitalized portion of the wage adjustment.  
21 (SEE EXHIBIT A3-14 PROFORMA - WAGE INCREASE ANNUALIZATION  
22 WORKSHEET)



## **Testimony of Paul W. Inman**

### **Docket Number 2013-378-E**

#### **Employee Count Adjustment**

Certain changes to employment complement were made during the Test Year 2012 and during 2013. During 2012, complement additions for an MIS Analyst and a Plant Operator/Technician were made. During 2013 a complement addition for a Financial Controller was made. Additionally, during 2012, one T&D employee, a lineman, was on military leave of absence for part of the year and, therefore, did not receive a full year of earnings during the test year. Collectively, a total cost of \$204,124 must be recognized in the test year to account for annualizations of these events. Based on company salaries & wages experience for the test year, the breakdown of this total will amount to \$158,962 for the expense component and \$45,162 for the capital portion. Adjustments to increase expense and rate base, respectively, by these amounts are included. (SEE EXHIBIT A3-15 PROFORMA – EMPLOYEE COUNT ADJUSTMENT WORKSHEET)

#### **Fringe Benefits Annualization**

The gross amounts of the two wage increase annualization adjustments as described above are \$69,888 and \$92,539 respectively, for a total of \$162,427. The gross amount of the employee count adjustment as also described above is \$204,124. The total amount of these two wage-related proforma adjustments added together is \$366,551. Variable fringe benefits costs during the test year amounted to 15.37% of direct earnings, which would result in an additional fringe benefits expense of \$56,339. This amount is therefore reflected as an

## **Testimony of Paul W. Inman**

### **Docket Number 2013-378-E**

1 adjustment to expense. (SEE EXHIBIT A3-16 PROFORMA – FRINGE  
2 BENEFITS ON EARNINGS - RELATED ADJUSTMENTS WORKSHEET)

#### **Officer's Performance Bonus Adjustment**

3  
4 During the Test Year 2012, the cost of an Officer's Performance Bonus in the  
5 amount of \$87,000 was included in actual expense. Although this is a  
6 completely legitimate expense, a one-time adjustment to reduce G&A expense is  
7 included herein to remove this amount from Cost of Service in order to help  
8 control customer costs. (SEE EXHIBIT A3-17 PROFORMA - TRANSMISSION  
9 SYSTEM STUDY EXPENSE WORKSHEET)

#### **Rate Case Expense Amortization**

10  
11 Professional services and other administrative costs incurred in connection with  
12 this rate application are expected to amount to \$130,000. This amount is herein  
13 amortized over 4 years, or \$32,500 per year as an increase to expense. The  
14 test year also included prior rate case expense amortization of \$65,759.  
15 Amortization of the prior case ended August 31, 2013, and will, therefore, be  
16 non-recurring. Consequently, a net proforma adjustment is made to reduce test  
17 year rate case expense by \$33,259. (SEE EXHIBIT A3-18 PROFORMA – RATE  
18 CASE EXPENSE WORKSHEET)

#### **Lease of New Office Space**

19  
20 In 2013, Lockhart Power Company moved its Customer Service, Accounting and  
21 Administrative functions into a new office building. It had occupied its prior office  
22 for more than 50 years, but had already outgrown this facility several years prior

## **Testimony of Paul W. Inman**

### **Docket Number 2013-378-E**

1 to the time of the relocation. The Company leased this new office space, and,  
2 under the terms of the lease, began to incur costs of \$104,000 per year, subject  
3 to an annual CPI-type price adjustment. A proforma adjustment is herein made  
4 to increase annual expense by the present total annual lease cost of \$104,000 to  
5 include in Cost of Service. (SEE EXHIBIT A3-19 PROFORMA – LEASE OF  
6 NEW OFFICE SPACE WORKSHEET)

#### **Industrial Customer Power Factor Adjustment**

8 During the 2012 Test Year, power factor adjustment charge billings totaling  
9 \$100,809 were made to one of the Company's industrial customers. The  
10 customer installed certain power factor correction equipment, eliminating the  
11 need for continuation of the power factor charge. These billings will not repeat,  
12 prospectively, and should be removed from Cost of Service for the test year. An  
13 adjustment is made to reduce test year revenue by the amount of \$100,809.  
14 (SEE EXHIBIT A3-19 PROFORMA – INDUSTRIAL CUSTOMER POWER  
15 FACTOR ADJUSTMENT WORKSHEET).

#### **Small Hydro Off-System Sales Adjustments**

17 Lockhart Power Company has contracted for the off-system sale of output from  
18 its three small hydroelectric plants (i.e. the Upper Pacolet, Lower Pacolet, and  
19 Minimum Flow hydros). The entire proceeds of these sales will be credited back  
20 to its requirements customers as a reduction of their revenue requirement via the  
21 Company's power adjustment clauses. This process results in a greater benefit  
22 to the customers than would have resulted had the power been used internally,

## **Testimony of Paul W. Inman**

### **Docket Number 2013-378-E**

1       thus avoiding only the incremental cost of the reduced purchased power at the  
2       wholesale rate. It is necessary that two adjustments be made to test year 2012  
3       revenues to properly reflect the impact of these sales and their special treatment.  
4       First, an adjustment is made to increase wholesale sales by \$1,381,401 to  
5       account for the annual off-system wholesale transaction. Secondly, an  
6       adjustment is made to decrease requirements sales by an off-setting \$1,381,401  
7       to reflect the pass-through of the proceeds of the sales to requirements  
8       customers via the Company's power adjustment clauses. (SEE EXHIBIT A3-21  
9       PROFORMA – SMALL HYDRO OFF-SYSTEM SALES ADJUSTMENTS  
10      WORKSHEET)

#### **Columbia Hydro Revenue & Expense**

12      Lockhart Power Company assumed responsibility for the Columbia Hydroelectric  
13      facility in 2011. The Company signed a 25-year operating agreement with the  
14      City of Columbia, S. C. under which Lockhart would commence a multi-year  
15      \$4MM Rehabilitation Plan to renovate the plant in order to increase plant  
16      production and improve safety. Under this agreement, Lockhart would assume  
17      control of and operate the plant. Lockhart desires to incorporate Columbia Hydro  
18      operations into Cost of Service for all requirements customers, and to credit the  
19      proceeds of its off-system resale sales back to its requirements customers as a  
20      reduction of their revenue requirement via the Company's power adjustment  
21      clauses. This would be handled in the same manner as described for its other  
22      three small hydroelectric operations. (See Small Hydro Off-System Sales

**Testimony of Paul W. Inman**  
**Docket Number 2013-378-E**

1 Adjustment section above). First, an adjustment is made to increase wholesale  
2 sales by \$2,503,643 to account for the annual off-system wholesale transaction.  
3 Secondly, an adjustment is made to decrease requirements sales by an off-  
4 setting \$2,503,643 to reflect the pass-through of the proceeds of the sales to  
5 requirements customers via the Company's power adjustment clauses. Finally,  
6 proforma adjustments totaling \$752,691 are made as an increase to operating  
7 expense to include in Cost of Service the annual cost of plant operations. (SEE  
8 EXHIBIT A3-22 PROFORMA – COLUMBIA HYDRO REVENUE & EXPENSE  
9 WORKSHEET)

10 **I.T. Infrastructure Cost**

11 The Company replaced its 18-year-old legacy I.T. System in 2012. In addition to  
12 this upgrade, and as a part of the Company's move into its new office space, it  
13 upgraded its entire telephone system to a Voice Over IP system. The ongoing  
14 cost of these upgrades, such as I.T. support, system hosting and the new  
15 telephone and call routing system has increased. An adjustment to provide for  
16 the net increased annual operating costs is made in the amount of \$38,772.  
17 (SEE EXHIBIT A3-23 PROFORMA – I.T. INFRASTRUCTURE COST  
18 WORKSHEET)

19 **Q. WOULD YOU EXPLAIN WHY THERE WILL BE A DEFERRED BILLING OF**  
20 **POWER COST EXPENSE AT THE TIME NEW RATES TAKE EFFECT?**

21 **A.** Lockhart Power Company's Rate Schedule O provides for the pass-through to  
22 the customer of any increases above or decreases below the base cost of Power

**Testimony of Paul W. Inman**  
**Docket Number 2013-378-E**

1 Adjustment Cost (purchased power and fuel used for generation, less applicable  
2 wholesale power sales) per kWh sold. The net total cost of these categories is  
3 calculated for each month and compared to the base cost of such items that is  
4 included in the Company's base electric rates. Any variation in the monthly cost  
5 from the base amount (after being adjusted for gross receipts tax) is passed on  
6 to the customer during the following month. This adjustment can be either  
7 positive or negative. If positive, the customer will receive a charge on the billing.  
8 If negative, a credit will be applied to the billing. At the time new rates take  
9 effect, there will be a one-month over or under recovery of Power Adjustment  
10 Cost under the old rates that will be trued up in the following month.

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A.** Yes.

STATE OF SOUTH CAROLINA)

)

VERIFICATION

)

COUNTY OF UNION )

PERSONALLY appeared before me, Paul W. Inman, who being duly sworn states:

That he is the Business Controller of Lockhart Power Company; that the testimony attached hereto as Testimony of Paul W. Inman is based upon information that he believes to be true and correct.

  
Paul W. Inman

Sworn to before me this  
11<sup>th</sup> day of March, 2014

  
Rabecka Chavis

My Commission Expires: January 14, 2019